voy, the Austrians entered Mantua, whence the Duke promptly fled. The Austrians marched into Mantua on the 29th of February, that being leap-year, and Ferdinand came back no more. Indeed, trusting in false hopes of restoration held out to him by Venice and France, he died on the 5th of the July following, at Padua, — it was said by poison, but more probably of sin and sorrow. So ended Ducal Mantua.

The Austrians held the city till 1797. The French Revolution took it and kept it till 1799, and then left it to the Austrians for two years. Then the Cisalpine Republic possessed it till 1802; and then it was made part of the Kingdom of Italy, and so continued twelve years; after which it fell again to Austria. In 1848, there was a revolution, and the Austrian soldiers stole the precious silver case that held the phial of the true blood. Austria still keeps the place, and Mantua the fortress is stronger than ever before. As for Mantua the people, it is dead.

ART. IV. — 1. *The Currency Question. Letters to the Honorable Schuyler Colfax.* By HENRY C. CAREY. Philadelphia. 1865.

2. *Report of the Comptroller of the Currency for* 1864.

3. *Remarks on Specie Reserves and Bank Deposits.* By FRANCIS BOWEN. (Memoirs of the American Academy, Vol. VIII.)

THE Rebellion has left us with an enormous debt and an excessively complicated currency. The former must be paid, the latter regulated. The two are so intimately connected, however, that it is difficult entirely to separate the consideration of them. At present we regulate the currency only by contracting or changing the form of debts; and in future its regulation must be affected by the mode of paying the debt. But there are two propositions respecting the debt which can be sustained independently of considerations of the currency. They are, —

That it ought to be discharged as rapidly as possible.

That it can be discharged much more rapidly than is generally supposed.

The tendency toward a change in our views of the merits and demerits of a national debt is a most discouraging feature of public sentiment. Before the late war we very correctly and justly looked upon a national debt as a peculiarly undemocratic institution, a device of prodigal, reckless, and ambitious rulers to cheat their people out of taxes which they would not pay directly, and to throw upon the labor of the future burdens which ought to be borne by the capital of the present. We flattered ourselves that the idea of a permanent debt would never be transplanted to American soil. Now, however, attempts are being made in many quarters to seduce us into the belief that it has advantages to compensate for its evils. Some tell us that it is to be a bond of union, and that, had we been saddled with a debt of three thousand millions when Abraham Lincoln was elected President, the South would never have seceded, because they would have been unwilling to lose their portion of the debt. A more dangerous delusion could not be imposed on a nation. In reasoning of this class, the fact that all the money received by the public creditors must be raised by taxation is completely ignored. True, the taxes, being mostly indirect, may be less felt than if they were drawn directly from the pockets of those who contribute them; but this is no sufficient reason why they should be left entirely out of consideration.

There is, moreover, a very cogent reason why they should be taken into consideration. Suppose a heavy national debt had been incurred in 1850, and that the South held as much of that debt as it paid taxes. Before 1855 the improvident people of that section would have sold out almost their entire share of the debt to the more frugal and industrious North; and the only inducement the debt would then offer them to preserve the Union would have been the privilege of paying an annual tax of several millions of dollars to the people of another section!

The attention which has recently been paid to the project for paying off the national debt by subscription has at least had the

effect of bringing the public mind to perceive the abstract possibility of paying it off at one effort. The project is indeed chimerical, but only because it makes the amount to be paid by each individual dependent on his own judgment, instead of that of the community. Levy a direct tax to the entire amount of the debt, and the debt will, in a great measure, be the means of paying itself off. The total amount of the tax will, of course, be equal to the total amount of the debt. If the debt happened to be divided among the community in proportion to the tax to be levied, so that every man should find himself possessed of government securities to the entire amount of his tax, he would simply have to give these securities in payment of his tax. He would then be no poorer than before; because all that he lost in government debt he would be saved in future taxes.

Although the debt is not divided among the community in this proportion, that is, in proportion to their ability to pay taxes for its extinction, yet the number who own enough of the debt to pay their tax out of it is so great, that it might be paid off by a single direct tax with far less real distress or difficulty than might be anticipated. A very important consideration is, that if paid off in this way different classes of the community would not pay in the same proportion that they actually do pay by the plan of gradual extinction. When the revenue to pay the debt is raised by indirect taxation, each individual pays in proportion to his consumption, during a long series of years, of those products of labor which are taxed. But if the debt is paid off by direct assessment, each individual must contribute in proportion to his present ability to command a considerable sum. Compare, for instance, the case of a capitalist worth fifty thousand dollars, and living entirely on the interest of his money, with that of a professional man who earns three thousand dollars per annum. Their income being equal, if their habits are similar they will contribute equally to the gradual extinction of the debt. But if they are called upon for a sudden assessment to meet a temporary emergency, the capitalist can, without serious injury to his wealth, part with a sum which it would be impossible for the professional man to raise. If the government is engaged in war, and must have the money, the possessor of capital will naturally

favor the plan of raising the money by loans, because he will then have refunded to him, from taxes levied on the producing classes, the money which he would otherwise have to pay into the treasury as a special war tax. But it will be for the interest of the professional man, or the laborer, whose annual consumption of the products of labor exceeds his accumulated capital, that the war expenses be raised by taxation; because, although his share of the tax may prove burdensome, it will amount to much less than the future indirect taxes which he would otherwise have to contribute to the extinction of the debt.

Which of these two methods of raising money is the more just and expedient, we shall not now pretend absolutely to decide. The question is an extremely complex one, and the two sides of it can hardly be weighed in the same balance. It is, however, suggested,—

That a great, sudden, and temporary expenses like that of our late war should, in great part, be distributed in proportion to the *present* ability of individuals to sustain it, this ability being fixed by each man's accumulated wealth, income, and profession; in other words, the money should be raised in great part by direct taxation.

And that the regular and permanent expenses, whether to carry on the government or to pay the debt, should be raised by taxes on articles of consumption.

But, granting that an assessment of one third of the debt, (say one thousand millions of dollars,) in proportion to the present ability of each individual to contribute, would be an equitable one, the sum required might certainly be paid off. In addition to the indirect taxes now levied, the government might, without injury to the pecuniary interests of the country, levy two annual direct taxes of five hundred millions each, provided that government indebtedness of every form should be received in payment of the tax.

It is true that, by this plan, the South would be relieved of some portion — perhaps nearly half — of that share of the debt she will otherwise be compelled to pay. But the inevitable effect of a policy which should throw the full share on her would be to give the majority of the future Southern voters a direct interest in the destruction or dishonor of the government;

so that it is a serious question whether the advantage which we of the North should gain by waiting till the South is able to pay her entire share will not be more than compensated by the dangers to which such a course would expose us.

One advantage of an assessment such as is here suggested is, that it would, for a time at least, stop the export of our securities. Instead of selling them at seventy cents on the dollar, individuals would save them to pay their assessments, and in consequence their value at home would speedily approach that of gold. The complacency with which the public look upon the export of our bonds by hundreds of millions, as if they were the products of our industry, is truly remarkable, inconsistent as it is with the economical opinions entertained by the majority in the Northeastern States. It can be justified only by carrying the principles of free trade beyond every limit assigned by common sense. Allusion has already been made to the two opposing popular fallacies respecting a national debt;—the one, that it is a great advantage, because it is capital, and a source of strength; the other, that it is a great evil, owing to the taxes which must be levied to pay it. When the community which pays the taxes is the same which holds the debt, the latter is neither a source of great evil nor of great advantage, so long as it is kept within moderate limits. But *when the debt is held by one community, and the taxes are paid by another, the obligation is then an unmitigated evil.* The two communities stand toward each other in the relation of debtor and creditor, just as if they were two individuals. To say that it is for the good of the debtor community that it be suffered to run in debt as far as its creditors will trust it, is no more true than would be a similar remark about an individual. A young rake, who has come into possession of a fortune, may spend it all in a single year; but few will argue that a friend who should induce him to change his habits to those of temperance, industry, and frugality, would do him an evil.

It is not denied that running in debt may frequently be advantageous. If a nation or an individual incurs a debt for something which is to be a source of wealth and power, so that, after he pays it, he will be richer than if it had never been incurred, it is well. Therefore, before we can decide whether

the debt is or is not beneficial, we must know the terms on which it is incurred, and what it is incurred for. What do we receive for the bonds which we are exporting? Ploughs, steam-engines, mines, and factories? No. We receive mainly cloths, silks, wines, and other articles of luxury, which add little or nothing to our permanent wealth. And see how hard the terms on which the debt is contracted. Even now, for every hundred dollars' worth of goods, we have to export more than one hundred and thirty dollars in six per cent bonds, so that we pay eight per cent interest on the value received, and a bonus of thirty per cent on the principal besides.

That public opinion should look with favor on such a transaction as this, is almost inexplicable. Were the transaction of a very complex nature, it might be supposed that the public generally did not see into its results. But when a nation's imports exceed its exports by hundreds of millions, and the balance is made up by exporting national indebtedness on such terms as a Jew offers an heir who has not yet entered into possession of his estate, surely the nature and effect of the bargain cannot require much elucidation.

The regulation of our currency is a problem of far greater complexity than the payment of our debt. In almost all countries the relations and mutual reactions of the currency, prices, trade, and credit are so complex, that the profoundest political economists have scarcely been able to unravel them. But compared with our present bank and government currency, the currency of every other commercial people is simple in the extreme. Some idea of its complexity may be formed by glancing at its origin and rise.

In 1861 our currency consisted of coin, and bank and government notes convertible into coin at the pleasure of the holder. This, being the sort of currency on which, after several centuries of trial and experiment, the civilized world has finally settled as the best, did not involve any new financial principle, and was neither more nor less complex than the monetary systems of other nations.

In the winter of 1862 the first additional element of complexity was introduced by the issue of the legal-tender notes. Underestimating its own credit and the determination of the

people, Congress, in a moment of great general depression, cut loose entirely from the specie anchorage, and substituted government six per cent bonds as the basis of the entire monetary system. One hundred and fifty millions of notes, convertible into these bonds, were declared a legal tender for all debts, public and private, except duties on imports and interest on the public debt. They were therefore a legal tender for the entire principal, whenever it should become due.

This first change in the character of government obligations to pay money was little more than a change of principle. A very great change of principle, indeed, when a nation which had agreed to pay gold coin would really pay nothing but its own promissory notes; but if these promissory notes would serve the receiver as well as an equivalent amount of coin, the change was productive of little injury. Now, this was the case so long as the volume of the notes was limited to one hundred and fifty millions. Unfortunately, however, when a nation or an individual changes its principles, it is pretty sure to change its practice accordingly. To grant any earthly power the legal right, under any circumstances, to issue notes which it is not obliged to pay in coin, and to expect that this right will not be abused, is like putting an open cask of wine before a thirsty laborer, with the expectation that he will confine himself to a single glass. Such a power never was granted without being abused. Before Congress adjourned, the total amount of notes was increased to three hundred millions, of which, however, fifty millions were reserved to pay depositors. The next Congress increased the sum total to about four hundred and fifty millions.

During the year 1863 the five-twenty bond basis was cut loose from, and the entire volume of currency and of public and private indebtedness was left without any basis whatever, except such as Congress might from time to time fix. The provision permitting the notes to be converted into five-twenty bonds was repealed, and the notes were simply declared receivable in payment of all loans made to the government. Here was a second addition to the complexity of the system.

A third source of complexity was devised in the shape of compound-interest legal-tender notes. They are legal-tender

notes, payable at a definite time in other legal-tender notes, which are themselves payable no one knows how or when.

The rights and the functions of the national banks and their currency introduce another complex element into our calculations. These institutions, in consideration of converting three hundred and fifty millions of legal-tender notes into interest-bearing bonds, are to be permitted to issue three hundred millions of their own notes.

However wise, patriotic, or necessary these measures might have been, they were each designed solely with reference to the exigencies of the hour, and adopted without any inquiry into their ultimate effects on the financial condition of the country. The government required money, and each measure supplied a limited amount of that commodity; but what government should do when the supply was exhausted was left to be discovered when the emergency should arise. In no official document do we find any attempt to discover the effect upon government indebtedness of the depreciation of the successive currencies authorized. In fact, many thinkers are disposed to deny that there has been any depreciation. The first step of an inquiry into the working of our currency system must be this: During the time that gold has been fluctuating between par and one hundred and sixty per cent premium, which was the standard of value, gold or legal-tender notes, or something between the two? This is a disputed question; and before entering the arena, let us disclaim all intention of answering it with logical precision. Political economists have searched in vain for a standard of value which would apply to different ages and countries, or even to the same country for two successive years. Exchangeable value not only depends upon every circumstance which influences the desires of man, but is itself something so impalpable as almost to elude exact definition.

But a standard of value, though unattainable, can be approached. The result of an average day's work of the entire community is, mathematically, the best approximate standard. Unfortunately it is not a standard which we can directly measure by. It is like the French metre before an arc of the meridian was measured, very well defined, being exactly the forty

millionth part of the earth's circumference, but not very easily handled.

It is found by experience that gold is the best attainable standard, its value, as measured by labor, varying less from month to month than that of any other commodity. In other words, *the amount of exertion with which men in general can obtain possession of a definite weight (say one ounce) of gold is more nearly constant from year to year than an amount of exertion defined in any other way.* If you contract to deliver your neighbor an ounce of gold in two, four, or ten years, you can count with more certainty on the amount of labor it will cost you to fulfil your contract, than if you agreed to deliver him a specified quantity of flour, cloth, or "lawful money." If you agree simply to pay twenty dollars in lawful money, that lawful money may, for aught you know, be as difficult to obtain as gold, as it certainly will be if gold is at par. On the other hand, currency may be issued in such quantities by Congress and banks, that you may be able to possess yourself of the required twenty dollars with very little exertion. For example, if you are a farmer, you may be able to obtain them by raising and selling a single bushel of wheat. Thus the contract loses that definiteness which would characterize it if you agreed to pay gold, pure and simple, and partakes of the character of a game of chance.

Still, gold itself is subject to changes of value of three different kinds. The largely increased supply is undoubtedly diminishing its value from generation to generation, though it is difficult to say to what extent. Like all other commodities, it is subject to slight fluctuations from month to month, but these are rendered very minute by the international supply and demand. Finally, in case of a great war or other social convulsion, circumstances may arise to change the value of gold, independently of other causes. Thus, during the Napoleonic wars, the great demand of the British government for gold to export to the Peninsula and other seats of war created a real rise, amounting perhaps to twenty per cent, in the value of that article, as measured by the relative price of other products of labor. Has there been a similar enhancement of its value during our civil war? This question can be answered only by an appeal to fact. Reason-

ing can no more settle it than it can decide how much rain fell in July, 1863. Appealing to tables of prices, we find that the average price of the products of labor has, throughout the war, kept pace with that of gold.* It is, then, a settled statistical fact, that during the war men in general have been able to possess themselves of a gold dollar with as much ease as at any time before the war.

Should any one be disposed to argue that there has been a universal rise in the intrinsic value of commodities, it will be vain to discuss the question with him. If the maker of a new yardstick should find that everything he measured with it seemed twice as long as before, his neighbors would probably conclude that his measure was only half long enough. But he might claim that the human race, the world, and the entire solar system had doubled their dimensions while he was hewing his yardstick, and it would be impossible to drive him from his position. Equally impossible is it to disprove the proposition that United States notes are invariable in value while everything else fluctuates.

Having settled upon the fact that gold is the only practical standard of value for every-day purposes, and the nearest approximation to an invariable standard at our command, we have a firm basis to build our conclusions upon. All prices and values must be reduced to a gold standard before we can

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* It is quite common to argue this point from entirely insufficient data, taking the price of a few articles on a certain day, instead of the average price of a great number during a considerable length of time. Even then, what we strictly want is, not an indiscriminate average, but one making due allowance for the quantity of each product produced or sold. To express the rule in algebraic language, if the prices of the different products are represented by p_1, p_2, p_3, etc., and the quantities sold by q_1, q_2, q_3, the average price of the products of labor and capital will be represented by

$$\frac{p_1 q_1 + p_2 q_2 + p_3 q_3 + p_4 q_4 + \text{etc.}}{q_1 + q_2 + q_3 + q_4 + \text{etc.}}.$$

The tables of prices which have appeared on several occasions in Hunt's Merchants' Magazine furnish us with the nearest approach to our desideratum. From a table in Vol. XLVIII. p. 121, it seems that, during the year 1862, the average price of a large number of staples in the New York market had increased more than fifty per cent; the premium on gold having risen to but thirty-five. Cotton, tobacco, rosin, and turpentine were excepted in taking the average. It also appears that the rise in prices did not follow, but preceded, the rise of the premium on gold, and generally kept in advance of it. Again, from a table in Vol. L. p. 132, it seems that the average rise per cent in the price of fifty-five products increased as follows from

compare them with each other. For instance, gold being now at forty-five per cent premium, and six per cent bonds at six per cent, it follows that legal-tender notes really exchange between man and man at sixty-nine cents on the dollar, and six per cent bonds at seventy-three cents on the dollar; and this not as measured by an imaginary standard, but by the amount of butter, flour, and beef which they will buy in the public markets. Measuring their value in the same practical way, bonds a year ago were worth only forty cents on the dollar.

An obvious corollary from the proposition just laid down is, that, when gold goes up, or the value of the dollar falls, those who owe money are enriched at the expense of their creditors, while in the opposite case the creditors are enriched at the expense of the debtors. Hence every change in the value of the dollar is an evil. But it is less injurious to national wealth when the creditor is benefited at the expense of the debtor, than in the opposite case, because, as a general rule, the creditor class are disposed to save their money, and the debtor class to spend it; and when the debtor pays more than he justly owes he is compelled to be more frugal, while the creditor receives a greater reward for his frugality, and is therefore encouraged to be more frugal. Frugality being the foundation of all national wealth and strength, the habits which conduce to wealth and

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January, 1862, to January, 1864. For comparison, we append the average premium on gold for the month preceding and following: —

		PREMIUM ON GOLD.	
Date.	Per cent.	Month prec.	Month foll.
1862, January,	0	0	0
" April,	5	2	2
1863, January,	64	32	44
" May,	69	51	48
" July,	90	46	31
" October,	65	33	46
1864, January,	111	52	54

These results, though conclusive on the general question, leave much to be desired in accuracy of detail, since the most insignificant articles in the list influence the result equally with the most important. Had the table been used so as to determine, by a method mathematically exact, the average product in currency of a day's labor of the entire community, this product would, we conceive, have been found to agree much more closely with the average premium on gold than the result really found. But it suffices to establish this fact, — that during most of the war, and still more since the war closed, men in general can command a given quantity of gold with greater ease than ever before.

strength are encouraged by an appreciation of the currency. The converse of this proposition is a familiar fact to the philosophical student of history. Eras of depreciating paper money have always been those of luxury, extravagance, and waste of wealth.

The experience of generations has shown that the only certain mode of regulating a paper currency is to make it convertible into coin or bullion at the pleasure of the holder. Every other mode has proved a miserable failure. Few practical men will deny that it is desirable that our currency should rise to the level of specie as soon as possible. The only sound objection to the change is the consequent enhancement of the burden of debts by those who have contracted to pay money; but all such contracts are now made with eyes open to the possibility of having to pay in the equivalent of specie. Taking it for granted, then, that our paper dollars must be made as valuable as gold dollars, it is proposed to inquire how this end may best be attained. But an intelligent judgment of the merits and effects of different ways of attaining it cannot be formed without a clear idea of the laws which regulate the value of our complex currency.

The present value of our paper dollar rests on two entirely distinct bases; (1.) the want by the community of a circulating medium, and (2.) the credit of the government. Let us see how.

Every man in the community is generally under the necessity of having in his possession, or to his credit in a bank, a greater or less supply of money, for the purpose of buying goods or paying his debts. Although the amount which any one man may have is continually varying, the total amount held, in ordinary times, by a community or by the nation, is remarkably constant. Every banker, for instance, finds that, although the amount on his books to the credit of any individual depositor fluctuates violently, yet the total amount to the credit of all fluctuates very slowly.

The total amount thus held by the people of the Union, but continually circulating from hand to hand, was, in 1862, about six hundred millions. Of this, about half was in the form of bank deposits, and most of the other half in circulating notes of

the banks.* This amount being absolutely necessary to the transaction of the business of the country, however, the proposition respecting the relation between the volume of the currency and its gold value may be expressed thus: *The total gold value of the circulating medium, including bank deposits, cannot permanently fall below five hundred or six hundred millions of dollars.* In other words, the average price of the products of industry, gold included, cannot permanently rise in a higher ratio than the excess of the total volume of circulating notes and bank deposits over the above amount. For instance, if the total amount of circulating notes and bank deposits is limited to one thousand millions, prices cannot permanently rise to more than twice their gold value.

The proposition in question is not laid down as universally true. It ceases to hold good when the public feel that the currency is going to ruin, because then, every one being anxious to pass off all the money he receives as soon as possible, lest he lose by the crash, the money circulates with preternatural rapidity, and thus does far more than the regular amount of business. Such was the case in the Rebel States; but, happily, we have not been under the influence of such a fear.

The converse of this proposition, that all prices will rise in proportion to the volume of the currency, is not necessarily true, unless we mean by the term "volume of currency" something differing from the total amount of circulating notes held by the community. It is self-evident that government credit is a very important element in the value of the notes, irrespective of their total amount. When men in general contemplate the future of government credit and the national currency with confidence, instead of paying out their money as fast as they receive it, they will save it up for the purpose of investing in government bonds, or in hope that prices will fall. Few will give a hundred dollars for any article not urgently required, if he feels confident that, by waiting a few months, he will get it

* It is impossible to estimate accurately the total volume of the circulating medium, owing to the uncertainty of how much coin entered into it. The coin held by the banks is not to be included, it being represented by the deposits and circulation. Fifty millions will probably be considered a fair estimate of the coin actually used by the people as money.

for eighty; nor will any provident man prefer seventy gold dollars' worth of luxuries to a hundred-dollar gold bond, if he feels sure that the bonds will really be paid in gold. If this increased confidence in the future is general throughout the community, the necessary result will be a general fall in prices; in other words, an appreciation of the currency before a single greenback is withdrawn by the government.

But it is plain that the *effective* volume of the circulation is thus diminished, because this is not the total amount of government and bank notes which can be used for money, but the amount which is actually in the market for the purpose of buying. If you have a ten-dollar bill in your drawer which you intend to spend at the present tariff of prices, *so that you do not expect to gain by keeping it*, then that bill is part of the effective circulation; but if you intend to add more to it and invest the whole in seven-thirties, or if you are keeping it in hopes that prices will fall, it is withdrawn from circulation as much as if it were waiting to be burned in the treasury.

To set the proposition in another and perhaps a clearer light, suppose that the entire twenty-seven hundred millions of our public debt were put into such a shape that it could pass from hand to hand as money, and were made a legal tender between individuals. Would the value of the debt be depreciated? To maintain the affirmative would be to maintain that, by adding to the number of uses of a commodity, its value might be diminished, — a manifest absurdity. It is therefore possible to have many times as much money in the country as is needed for use in effecting exchanges without producing depreciation, the only condition being that the money shall have a value independent of its uses as currency.

These laws of currency, and the effects of our double basis, are fully illustrated by well-known facts of our financial history during the late war. In the winter of 1862-63, a legal-tender note, payable no one knew how or when, was worth from seven to ten per cent more than a six per cent bond, both principal and interest of which government was bound, by every consideration of honor, to pay in gold; and this was simply because it could be passed from hand to hand as money, while the bond

could not. Thus its usefulness as money gave it a value which government credit alone could not give it.

Again, the most superficial observer cannot have failed to notice that the two periods of great fall in the price of gold have been those of heavy subscriptions to government loans, or, to speak more accurately, of large conversion of notes into bonds. During the spring and summer of 1863, nearly five hundred millions were subscribed to the five-twenty loan ; and during the same period the premium on gold fell from seventy to twenty-five per cent. From this time until the end of 1864 the subscriptions to national loans were comparatively small; and during the first eight months of this period we witnessed a continuous rise in the price of gold from 125 to 260. During the first six months of the present year the premium on gold fell nearly one hundred per cent, while the immense subscriptions to the seven-thirty loan were going on.

It is not claimed that, in the cases just alluded to, the large conversion of notes was the immediate cause of the fall in gold. The conversion of the notes and the fall in gold were conjointly the effects of the increased confidence of the people in the credit of the government, and one could not have occurred without the other. So long as prices were kept at two or three times their gold height, almost the entire volume of the currency would be needed to effect the exchanges of the community, so that there would be little to spare the government. On the other hand, had no loan been offered, there would have been no inducement to lay up money to invest in government securities, so that there could not have been much of a fall in gold.

A very powerful party oppose a return to specie payments on the ground that such a course would prove highly injurious to the industrial interests of the country. This view can be supported by arguments seemingly so powerful, it appeals so strongly to the popular idea of the functions of money, and the grain of truth which it contains stands out so strongly, that it is worthy of very careful consideration.

Let us imagine the internal commerce of a country going on at a regular and natural rate. Let us follow in imagination the course of a dollar bill, and see what office it performs. We find

it in the hands of a farmer. He exchanges it with a shoemaker for a pair of shoes. The shoemaker pays it to the grocer for a pound of tea. The grocer sends it to an importer, and orders more tea. The importer must import more tea, and with the bill buys wheat for export from the very farmer from whom the bill started. Thus, in the course of a month, it may have a dozen exchanges. Six hundred million such bills keep up the entire commercial exchanges of the country.

Suppose, now, that government had induced the farmer to hoard, invest, or loan the dollar, and wear his old shoes awhile longer. Then it would seem that the shoemaker, not selling his shoes, cannot buy the pound of tea. The grocer orders less tea from the importer. The importer has no occasion to buy wheat from the farmer, or, rather, he buys one dollar's worth less. Thus all the commerce which would have been effected by that dollar ceases. Withdrawing it from circulation is like withdrawing blood from the veins of a workman.

Mr. Carey, in his pamphlet, describes what he conceives to be the state of the country on the 4th of March, 1861. He sees millions of people wholly or partially unemployed, thousands of traders unable to meet their engagements, thousands of mills and factories standing idle, and all for the want of money to pay the workmen and buy the goods, and thus establish the "societary circulation."

The position described in the last paragraphs is so strong, that an attempt to carry it by a direct assault would be likely to result in failure. But if we besiege it by regular approaches, it will, we conceive, be proved wholly untenable. The question is one of fact rather than of logic. The position of the paper-money school is, that a diminution of the currency will produce certain injurious effects on the ability of men to exchange and enjoy the products of each other's labor. We claim that human nature is so constituted that the cause in question never did and never can produce the effects attributed to it to an injurious extent, and that there is no example of a people being without a circulating medium adequate to effect all the exchanges which they are disposed to make. We shall state the facts which we oppose to the views disputed in such a way that their truth will be evident to the enlightened good-sense of the reader.

Taking a bird's-eye view of the country, we see crops reaped, railroads built, steam-engines set going, freight trains moved, and goods of all kinds bought and sold. What is the actual moving power, the efficient cause, which keeps the social system in such a state of activity ?

We answer, it is the desire of every individual man to enjoy the fruits of labor. Many might say it is the desire of the individual to acquire money ; but this is a secondary and merely accidental link in the chain of causes. Why does he wish money ? Only that he may buy the fruits of other men's labor with it. Force him to keep all the money he earns, and his exertions will instantly cease. The desire for goods which he hopes to buy with the money is therefore the original and sole motive which keeps up his exertions.

The amount of each man's labor is regulated by a law which is wholly independent of money. He will labor as long as the wealth which he produces compensates him for the irksomeness of the labor, *and no longer.* It is impossible to force his industry beyond this point; and if it were possible, doing so would diminish his happiness, because the advantages of increased wealth would no longer compensate for the irksomeness of the increased labor. And he will, of his own accord, labor until the compensation in question is established, unless he is liable to be forcibly deprived of the fruits of his industry.

It is quite certain that, when men come to exchange the products of their industry, as a general rule, they exchange products of labor for the products of equal labor. In other words, the money prices which they set on their goods are proportional to the labor of producing them. And, as the only limit of the disposition to labor is the failure of its product to afford sufficient enjoyment, so the only limit of the demand for any class of goods is the willingness of the community to give in exchange for them the amount of labor necessary for their production. Take shoes, for instance. The aggregate desire of all the individuals in the community for shoes is the exact measure and limit of the total demand for shoes. The aggregate desire of railroad companies for locomotives, which is itself the product of the desire of the community for transportation, is the exact measure of the demand for locomotives; and so

with all other articles, — the desire, however, beginning to operate only when sufficiently intense to induce the person desiring to give an equivalent in the products of his own labor for the article desired.

Thus the laws of supply and demand, of production and exchange, are defined without reference to the circulating medium. And our positions thus far will not, we conceive, be assailed. But the besieged may contest our farther advance somewhat after the following fashion : —

We fully admit the truth of your laws of the limits of industry, exchange, and demand, provided that every man who produces anything desired by others can exchange it for an equivalent of the articles which he himself desires. But you know that, in the vast majority of cases, the man who wants his products will not be the man whose products he wants; the exchange must therefore be made indirectly, by means of the circulating medium. But by deranging the circulation, its power to effect these indirect exchanges is diminished.

To this the reply is, that money has no "power" to effect exchanges. It is only the *instrument*, not the *cause*, of the exchange; a very necessary instrument it is true, but the very fact that it is at the same time necessary and simple affords the best guaranty that no community will ever be long without it. The community will always have enough of the medium of exchange, because any easily transportable commodity can be used as such. Our school-books tell us that iron and salt have been used as money by barbarous tribes; and we all know that Indian corn and wampum were once lawful money in this very Commonwealth, and tobacco in Virginia. We have become so accustomed to the best possible media of exchange, that we cannot conceive of anything else being used as money, — just as a man who had always eaten out of silver might fear starvation if reduced to pewter. If we were next year driven to use tobacco as money, allowing all who were so disposed to issue their notes payable in tobacco, it would not permanently diminish "societary circulation," more than the destruction of all the silver and china in the country would diminish the quantity of food eaten.

Let us now take up Mr. Carey's hypothesis of a universal

cessation of the demand for the products of industry, — not because they had ceased to be desired, but because of a want of the instrument of demand, namely, money, — and see what would have been the result. Would every one have stood idle? No. Nearly every one would have said, we may as well work as stand idle; and would have gone on with their work, only with less than their usual energy, in anticipation of a future demand. Thus, a surplus of all the articles desired by man would have been accumulated. Now, we ask, is there any example of a country being in possession of all the articles which its people desired, but the people unable to use those articles for the want of means to effect a general system of exchange? We venture to say that there is no such example. True, goods are often produced for which there is no sale. But this is only because people do not desire them with sufficient intensity to give an equivalent of their own labor in exchange, or because large classes are deprived of the power of producing commodities to give in exchange, as was the case during the famine in Ireland. Such misfortunes are almost necessarily the result of sudden changes in the industrial pursuits of a people, such as result from transition from war to peace, or peace to war. They have nothing whatever to do with the currency. Mr. Carey's *tableau vivant* is as purely imaginary as if he had reproduced the history of the Liliputians.

Now, what is the error of the views we set forth respecting the effect of withdrawing a dollar from the currency? Is it not really true that the farmer would be prevented from buying the shoes, the shoemaker from buying the tea, the grocer from ordering of the importer, and the importer from buying the farmer's flour? It could be true only for a few days, or weeks at farthest, and it would not necessarily be true at all. The first effect of the temporary diminution in the demand for goods would be, that *every one would offer his products a little cheaper*. The farmer, estimating more highly the government dollar, will offer his flour to the importer a little cheaper; the latter will then be obliged to offer his tea cheaper in proportion; and finally the shoemaker, to increase the demand for his shoes, will sell them cheaper, and the farmer will now buy

them at the diminished price. If the gold value of the dollar is doubled, this cheapening process will go on till prices are reduced one half. Then the "societary circulation" will again go on at its natural rate. The fifty-cent note will perform all the exchanges formerly performed by the dollar note; the latter will take the place of the two-dollar note, and the fifty-dollar check of the hundred-dollar check. Every one will derive as much benefit from his labor as before, because he buys as well as sells at half price.

Singularly enough, Mr. Carey gives so happy an illustration of the supposed wants of the country, that it perfectly illustrates his own error. He compares the pouring of money into the veins of commerce to the opening of a *clearing-house* for the whole country. Now, if he should account for a total stagnation in the banking business by assuming that the clearing-house had been destroyed, so that the banks could no longor exchange their checks and bills, and should propose to establish a clearing-house in every street of every city of the Union, on the ground that banking would increase in proportion to the number of such institutions, there would be as much truth and common sense in his propositions as in those he actually sustains.

Nearly all the views we have thus far combated are examples of that idol of the theatre which gives rise to the belief that the limitations under which we see men act are the necessary limitations of all human action. The fabled currier, who argued that "there was nothing like leather" to fortify a city, was no more the victim of this idol than the financier who argues that there is nothing like money to carry on war. Leather was the cause or the instrument of all the good he had ever done the world, or received from it; and was he any more to blame for thinking that without leather society would relapse into chaos, than the financier for thinking that money is the moving power of the social system? The man of thought knows that the human race is too skilful in the adaptation of means to ends to be permanently impeded in his course merely by the deprivation of the usual means of progress.

Since no permanent injury can arise from the most rapid return to specie payments, we may inquire how a specie basis

is to be reached. Many used to think that our paper money would become as valuable as specie of itself after the war was over. This delusion has already been corrected by sad experience. If the permanent circulation of the country is to consist of four hundred and fifty millions of government currency, three hundred millions of bank notes, and as great a value of bank deposits as the banks choose to receive and loan, it is morally certain that the currency will be depreciated to forty or fifty cents on the dollar for years to come; in other words, that the price of gold will range from 200 to 250. When government ceases to ask for loans without making provision for paying its notes in specie, every note will be in the market for the purpose of buying, and prices will be inflated in proportion to the value of the currency; and the price of gold will necessarily keep pace with that of everything else.

A return to a specie basis is impossible without contracting the total note circulation, bank and government, to something like three hundred millions. There being now some eight hundred millions of notes afloat, the consequence of an offer to redeem them immediately in specie would be to cause five hundred millions to rush to the treasury in a mass. Of course these could not all be redeemed at once.

But these five hundred millions must in some way be withdrawn before a specie basis can be reached. The question is, how shall the withdrawal be effected. Let us fund the redundant currency in a long loan, say the public. The question whether we shall or shall not thus fund the surplus currency, is discussed with a blissful unconsciousness that there is any impediment in the way of its being done. The public seem to forget that, unless the funding is compulsory, it takes two parties to fund a note, the note-holder and the government; or, rather, the consent of the former to any arrangement the government chooses to propose is taken for granted. But let us see on what kind of terms a note could be funded on a long loan.

The five per cent "ten-forty loan," both principal and interest payable in coin, is at present selling at a discount of six and a half per cent for currency, and therefore at sixty-five cents on the dollar in gold. If, therefore, the government chose to fund

the outstanding legal-tender notes in five per cent bonds, not a note would come in to be funded, for the simple reason that the same bonds could be got cheaper from the public.

"But," say some, "let us offer long bonds, irredeemable for a much longer time than ten years. Such bonds will be much more valuable than the comparatively short ones."

The latter assertion can be most conclusively refuted, both by experience and the reason of the thing. We now have five-twenty bonds, six per cent, redeemable at any time after two years, and long bonds irredeemable until 1881; but the average price of the latter is but an insignificant fraction higher than that of the former; frequently there is no difference at all in the price, after allowing for the difference of accrued interest. Again, the only reason why a long bond can be more valuable than a short one is, that the latter may be redeemed at a time when the former is above par. It seems then, that, in the general opinion of the public, there is no probability of a six per cent bond being much above par in coin in the next sixteen years. If this is the case with a six per cent bond, for a much stronger reason will it be the case with one bearing a lower rate of interest; so that a four or five per cent bond, irredeemable for a thousand years, would be worth no more than a ten-forty bond, unless issued to an amount so small that only the eccentric few who might be tickled with the thousand-year plan could be supplied.

The bonds, then, if bearing interest at the rate of only five per cent, must be sold below par. How much below? Suppose the first hundred millions can be sold at present prices, so as to withdraw ninety-three millions of currency, the currency which is left will then be more valuable in proportion to the bonds, and the next hundred millions will have to be sold at a yet greater discount, — how much greater it is impossible to say. All we can say is, that the present gold value of the bonds (65) is pretty certain to increase, and the currency value (93) to diminish; so that when the value of the currency is finally brought up to that of gold, the bonds will sell at some figure between 65 and 93. In the absence of data for judging whereabouts between these limits the price will settle, let us assume the mean, or 79 per cent, as the final price.

The knowledge that the currency must appreciate by the funding process will make the holders of notes unwilling to fund them at present rates; probably 89 is the highest price that would be obtained for the first hundred millions of bonds. The probable cost of funding the five hundred millions of notes will then be as follows: —

The holders of the first hundred millions of notes will demand about	112 millions in five per cent bonds.
The second hundred millions,	116 " " "
" third " "	119 " " "
" fourth " "	123 " " "
" fifth " "	127 " " "
Total,	597 millions.
Annual interest,	30 millions, nearly.

This method will, we fear, not be received with much favor. So far as we can judge from the expressions of those who favor the funding plan, they intend the bonds to be taken at par. If they simply wait for this to be done, they will wait for many years; and our currency will in the mean time be subject to the most disastrous fluctuations.

The great objection to the funding plan is, that the future will be as uncertain as ever. The notes withdrawn can be reissued at almost any time. No one will be able to tell when a specie basis will be reached, whether in six months or six years; and no one will know how long before some party in favor of repudiating redemption in specie will get possession of the government, and reissue the entire mass of currency. The evil to be dreaded is strongly set forth in the following extract from a widely circulated document: —

"All is greenbacks. If you invest in Boston Sixes, better, if possible, than the British Exchequer Bills, and pay 120 for them, what will you get paid off in when they mature? what will you get the interest in? In gold? No, sir: in greenbacks. Invest in New York City Sixes, and pay 110 for them. When you or your children come to be paid up, you will get greenbacks, and one hundred dollars of greenbacks for one hundred dollars of debt, and no more. The interest and the principal of every debt of every State in this Union, except California, temporarily indulging herself, and being indulged by us, in a point

of metallic pride, is payable in greenbacks. Every debt of every kind in the business of this nation of thirty millions of people is payable in greenbacks. Practically, gold is not money."

Remembering that, as the term "greenback" is here used, it means any piece of paper, however worthless, which any party which may hereafter come into power may choose to declare lawful money, it must be confessed that the picture here presented is dark enough to the eyes of those who contemplate investing their capital in any form of indebtedness, public or private.*

A modification of the plan just discussed, and possibly a measure which the advocates of funding have in view, is to make the exchange of the notes for bonds compulsory, by depriving them of the character of lawful money, now and forever. To avoid the injustice of making those who had contracted debts in currency pay them in coin, it should be provided, —

That all debts contracted before January 1, 1863, should be payable in coin only, as required by every consideration of justice.

All debts contracted between January 1, 1863, and the passage of the act, to be discharged by paying seventy cents on the dollar in coin.

All debts contracted thereafter to be payable in coin only; and coin alone, or notes convertible into coin, to be lawful money or legal tender.

This would be for the government the cheapest plan, and possibly the best. A great recommendation of this plan is, that less injustice would be done to individuals by it than by any other. It is the only one which makes allowance to both debtor and creditor for the depreciation and appreciation of the currency in which the debt is contracted. The principal objections to it are, (1.) that the notes would still be used as money in current transactions, and it would not be advisable to follow the course of the late Rebel government in threatening to repudiate all notes not returned to the treasury by a

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* Singular as it may seem, this discouraging picture was presented to the people in a document professing to sustain the public credit, as an argument for investing their funds in a government loan.

certain time; and (2.) that many intricate legal questions might arise respecting the time when a debt should be considered as contracted.

A third method would be to fix by law a date for the resumption of specie payments. Our failure to do this in the beginning was one of our most serious financial errors, for a note which has no fixed time of payment cannot have any definite value as a debt. At this time not a man in the country has the remotest idea when the four hundred and thirty millions of non-interest bearing notes will be payable.

It is not proposed that the month and day for a universal payment should be fixed, but that the date should be in some way defined. It may be enacted that all notes surrendered to the treasury during the months of January and February, 1866, shall be paid in coin during the month of January, 1867; that

All notes surrendered during	Shall be paid in
March and April, 1866,	February, 1867.
May and June, 1866,	March, 1867.
July and August, 1866,	April, 1867.
September and October, 1866,	May, 1867.
November and December, 1866,	June, 1867.
January and February, 1867,	July, 1867.
March and April, 1867,	August, 1867.
May and June, 1867,	September, 1867.
July and August, 1867,	October, 1867.
September and October, 1867,	November, 1867.
November, 1867,	Thirty days after surrender.
December, 1867,	On January 1, 1868.
After January 1, 1868,	On demand.

By thus extending the redemption over a period of two years, the appreciation in the value of the currency and its diminution in volume would be gradual, extending, as it would, over all this period. The government also would save interest on the money from the date of surrender of the note to that of payment.

Whatever method is adopted, we strenuously maintain that its first feature should be *a permanent return to specie payments at a definite time.* A mere withdrawal of the surplus currency will not only fail to produce the desired feeling of

security, but it will produce in the greatest degree that temporary stagnation of business which is so much feared by the advocates of an expanded currency. But when every one knows that specie, and nothing else, is to be the basis of the currency, men will regulate their business and their prices accordingly, and the change may be effected without injury to any except mere gamblers in prices.

These considerations on the mode of attaining a specie basis give rise to one of the most important questions we have to discuss. Our national currency being a fixed fact, shall it be a bank or a government currency? At present it is a mixture of the two. Leaving out of the question the compound-interest legal-tender notes, which are likely soon to be hoarded for redemption, we now have in circulation about four hundred and fifty millions of government notes, or "greenbacks," and three hundred millions of National and State bank notes, the latter of which will be converted into the former as soon as the Comptroller of the Currency can issue them. If the issue of this bank currency were prohibited, a return on the part of the government to specie payments would be comparatively easy. We have already seen that about three hundred millions in notes will be kept in circulation after the resumption, because this amount is absolutely needed to transact the business of the country. If, then, no bank notes were in circulation, and the government should offer to redeem in specie all its own non-interest bearing notes, only about one hundred and fifty millions would be presented, the rest being retained for currency. But, with three hundred millions of bank money to serve the purposes of currency, the entire four hundred and fifty millions of government notes will have to be redeemed before a specie basis can be reached. The entire burden of redeeming those three hundred millions of bank notes must therefore be borne by the government.

Congress, at its last session, provided for taxing all the State bank currency out of existence, on the common-sense ground that these institutions should not be allowed to inflate the currency by their issues. But the fact that the National bank currency was yet more deleterious than that of the State banks seems to have been overlooked, and instead of being prohibited,

it was fostered. It was supposed to support the government credit by facilitating the negotiation of loans. It seems to be universally taken for granted, that the great subscriptions to the seven-thirty loan were very gratifying, because they indicated that the government credit was good. But the public jumps altogether too quickly at this conclusion. These large subscriptions, in themselves, prove nothing more than that our public credit is not absolutely worthless. Suppose our government, before the destruction of the Confederacy, had offered to receive Confederate currency in payment of all its loans, with what alacrity would loans have been taken. Jeff Davis would have been glad to loan us a thousand millions at once. But would his offer have been heralded as proof of the high standard of our credit?

Why should the government adopt a policy by which the interest on its debt shall be increased by twenty millions a year? That reasons can be urged in favor of it, we do not deny. These reasons may be divided into those which are entirely baseless and illogical, and those which, whether strong or weak, are really founded on a logical basis. Among the former, that most prominently urged will be that the national banks support the public credit, and therefore ought to be encouraged. This reason scarcely touches the point in question. We do not propose to abolish the national banks, or change their charters, or curtail a single one of their legitimate privileges. We simply insist that they shall be made to confine themselves to their legitimate business of receiving deposits and discounting notes. We insist that the business of supplying a national currency belongs to the general government, and that the gratuitous surrender of the advantages of this business to private corporations, and that at a time when the future is fraught with danger, is a policy so clearly bad, that it is acquiesced in only through a general misapprehension of its nature and effects.

A large class of illogical objections are those which start from some universal proposition, as, for instance, that "government should not be bankers." All such sweeping generalizations, when used as premises for an argument, we deny at the outset, on the same grounds that logicians have denied the validity of the syllogism as an instrument for arriving at truth.

We might as well object to our postal system on the general ground that governments should not be carriers; or declare in favor of having our entire navy built in private shipyards, on the ground that governments should not be shipbuilders. It is impossible to prove that governments should not be bankers, without first proving that participation in anything whatever that can be called banking is deleterious to the government interests; that is, without proving the very point in dispute. In practice, such maxims always give way to the common sense of the nation. The post-office money-order system was objected to, because this form of banking was out of the sphere of the Post-Office Department; but Congress wisely concluded that logical definitions of the functions of any department ought to be subordinate to the public convenience.

The only logical reasons which can be assigned for the substitution of bank for government notes are those given in the Annual Report of the Comptroller of the Currency for 1864: —

> "Governments should not be bankers. None has existed which could be safely trusted with the privilege of permanently issuing its own notes as money. Circulating notes have been issued under peculiar circumstances by other governments, as it is now being done by that of the United States; but the judgment of the world is against it as a permanent policy; and nothing but an overpowering public exigency will at any time justify it. Under popular institutions like ours, no more dangerous, no more corrupting power could be lodged in the hands of the party in possession of the government; none more perilous to official probity and free elections. Give to a party dominant in the legislative and executive branches of the government the authority of issuing paper money for the purpose of furnishing the country with its currency, subject as it would be to no restraint but its own pleasure, and what guaranty would there be that this authority would be honestly and judiciously used? .... The power of issuing government promises as a circulating medium is too dangerous a one to be conferred upon any party except under extraordinary circumstances."

As we understand Mr. McCulloch, we heartily indorse all he says in this paragraph, except the first sentence. The authority actually possessed by any and every party which may hereafter come into power to pay off the national debt by an issue of paper money is indeed a terrible one, and one with which it

has no business to be intrusted. The possibility of its exercise is the sword of Damocles, which now hangs over the head of our public credit, and keeps our securities at a heavy discount at a time when our government is among the most stable and powerful on the planet. If this source of danger would, indeed, be removed by withdrawing our government notes, the increased security of our credit might compensate for the expense. But the weak point of the argument is, that the bank circulation will neither remove nor mitigate the danger. It has been judicially decided by the highest State courts that Congress does indeed possess this terrible authority; and that ends the question until we adopt a constitutional amendment that nothing but gold coin shall ever be a legal tender in payment of debts. The mere withdrawal of our notes will not deprive any future Congress of the power to flood the country with paper money; but a burden of twenty millions in extra interest on the debt will rather increase their disposition to exercise it. It will be like stripping the leaves from a shade tree, because its roots are exhausting the soil.

Mr. McCulloch seems disposed to let the root of the evil remain. He defends our issue of legal-tender notes, not on the legitimate ground of their expediency, as furnishing, to a limited extent, government indebtedness in a form at the same time least burdensome to the government (because it bears no interest), and most acceptable to the people (because it can be used as money), but on the very last ground on which a patriot ought to defend them, — their necessity. He expresses the opinion, that "there are now very few intelligent persons who are not persuaded that, without these notes, and the character of lawful money given to them by Congress and confirmed by the courts, the credit of the nation would have given way at the very outbreak of the Rebellion." Now the notes can be justified as a *necessity* only on the ground that, at a time when there was more specie in the country, and less use for it than ever before, the public would not trust the government with their idle capital on any but the most ruinous terms. That an issue of notes on such grounds as this could improve the public credit, or save it from ruin, is a proposition which needs only to be understood to make its refutation unnecessary.

The assertion of necessity emasculates the whole argument. As a logical argument, it is an exposition of the evils of irredeemable paper money in general, and applies with as much force to the present national bank currency as to a government currency. A national bank note is practically, though not theoretically, irredeemable, so long as specie payments are suspended. Redemption in coin is the safety-valve which insures the escape from circulation of all notes issued in excess. But redemption in irredeemable paper is simply a safety-valve leading into a twin boiler, where the pressure is as great as in the boiler to be relieved. Under such a system, the bank circulation is subject to no restraint but the pleasure of the party in power; and there is no guaranty whatever that its issue will be regulated by the real wants of the community.

We frankly admit that, in assuming irredeemableness and unchecked issues as necessary characteristics of government notes, Mr. McCulloch has all the facts of history on his side, and against that now sustained. The whole history of government paper money is a continuous record of human folly, fatuity, and dishonesty, as facts of American history familiar to every reader abundantly illustrate. But what was the essence of the evil? Simply this: that governments have invariably refused to redeem — in other words, pay — their notes when they were a legal tender between individuals. Mr. McCulloch concludes, as a matter of course, that, if our government issues paper money permanently, its policy will be of the same kind. At the same time he has entire confidence that government will adhere to its obligation to pay its funded debt. Supposing his argument to tell more strongly against government than against bank paper, its force will be best appreciated by putting it in the form of an answer by government to an inquiry into the grounds of its policy.

Question. Why do you allow those banks to issue notes, and then borrow them yourself and pay interest on the debt, and then pay them out to your creditors, when the latter would take your own notes as readily as those of the bank?

Answer. We do thus, because, if we issue our own notes, we shall very likely repudiate them, and thus bring discredit on ourself and ruin on the financial interests of the country. You

know very well that neither we nor any other government could be trusted to maintain the credit of their circulation; and we make no claim to have improved our morals in this respect. But we can, whenever we choose, force these corporations to pay their notes; so that they are not subject to the same danger.

These sentences contain all the pith of the continuation of Mr. McCulloch's argument as found on pages 5 and 6 of his Report. Grant this premise: The contraction of a debt in the form of a circulating note does not *necessarily* involve its repudiation, — and you knock the corner-stone from his argument. Admit that the obligation to redeem such a note may be as sacred as the obligation to pay a bond on maturity, and the whole fabric comes to the ground. The question then comes to this: Can this nation exhibit such firmness of principle that its notes shall be issued and redeemed in accordance with certain previously defined laws, from passive obedience to which the treasury shall not be permitted to deviate on any pretext whatever? If not, we yield the entire point. Our government must throw away an advantage which might save it from dishonor, simply because it cannot trust its own firmness of purpose. But if Congress can bind the Treasury Department by mandatory laws, then we aver that, if that body will employ, in elaborating a system of government paper money, a small part of the ingenuity which it formerly exhibited in inventing compromises between freedom and slavery, it will succeed in avoiding most of the evils feared by Mr. McCulloch.

To discuss the various possible systems of regulating such a currency would unduly increase the length of this article. We shall stop only to present the leading features of one such system, which seems to us best adapted to the actual condition of the country. Should the advisability of having some kind of government currency until our national debt is paid off become a subject of general discussion, we may take occasion to set forth the practical working of the proposed system more in detail. The great objects to be attained are threefold: —

1. That the value of every paper dollar shall be as nearly as possible that of a gold dollar.

2. That the volume of currency shall be diminished when excessive.

3. That it shall be increased when too small.

To attain the first end, Congress should pledge itself to a return to specie payments at a definite time. We have already indicated what we conceive to be the best method of bringing our currency to a par with specie.

Let a tax of six per cent per annum be levied on all bank circulation indiscriminately. If this is done, government will have to sell about two hundred millions of six per cent bonds to raise specie to redeem the notes which will be handed in, or to sell for notes at the market price. If it is not done, it will cost probably five hundred millions in such bonds to secure the resumption.

To secure the diminution of the currency when excessive, issue, in lieu of the present government and bank notes, notes payable in coin thirty days after surrender to the treasury; the holder of the note, on surrendering it, to receive a coin certificate payable in thirty days to him or his assignee. The faith of the United States to be pledged that all such certificates shall, at maturity, be paid in coin containing at least twenty-three grains of fine gold in every dollar,* and the Secretary of the Treasury to have unlimited power to sell, in the open market, all bonds necessary to provide coin for this purpose. The notes to be lawful money in current transactions, and in payment of debts due in less than ninety days after being contracted, so long as they are redeemed at the treasury, and *no longer.*

By this plan, the operation of supplying a currency, and of diminishing it when excessive, can be performed by government as well as by banks. But how increase it when deficient? The banks do this by discounting the notes of individuals, — a kind of business which it is not advisable for the government to undertake. But there are several ways by which government can effect the desired result.

1. Enact that notes shall always be issued on demand in

* Is it not to be regretted that the old habit of specifically pledging the faith of the United States to repay all moneys borrowed has been abandoned? Would not our public credit be slightly improved if every provision for future loans should contain the clause, "and the faith of the United States is hereby pledged to cause both interest and principal of the said loan to be paid in gold coin containing twenty-three grains of fine gold in every dollar"?

exchange for bullion or coin, at a certain rate, say an allowance of one fourth per cent in favor of the coin.

2. Pay principal or interest of the public debt in notes, in advance of the time when due, whenever the holders are willing to allow a certain discount.

3. Make loans to the banks, under such restrictions as shall secure the government against loss by the return of the notes for redemption.

As auxiliaries to the general system, repeal all laws making anything but gold coin receivable in payment of loans, and repeal the law absolutely limiting the rate of interest which may be charged by the banks. It is high time that we had passed the usury-law stage of financial civilization, and become willing to let the rate of interest be determined by the state of the money market.

Such a currency would not, we conceive, be subject to a single objection which would not apply with equal force to a bank circulation.

While differing from Mr. McCulloch on the important point to which we have alluded, it is only just to bear tribute to the general fairness of statement and liberality of view which characterize his Report. In this respect it is in singular contrast to the crude and prejudiced fancies which form the staple of most of our current speculation on financial subjects. All his words are those of one disposed to weigh carefully both sides of the question. We differ with him, because we assign less importance to the mere machinery by which the exchanges of the nation are carried on, and individuals are made to contribute to the common cause. Allusion has already been made to one of the false ideas of the working of that machinery which men naturally imbibe from what they see of the operations of trade and industry. One great object of the study of Political Economy is to eradicate these Baconian idols of the theatre from the mind. The importance of this point will warrant some further illustration.

When one views the operations of a powerful piece of machinery, it is natural to feel as if the force resided in the ponderous wheels, the swift-moving pinions, and the rattling cogs. The stream of water quietly running through the turbine is

apt to be entirely overlooked. Yet it is, at the same time, the cause and the measure of all the work done by the mill. A wheel, a cog, or a pinion can be replaced in a short time; but remove the waterfall, and the machinery all stops forever.

Men make a similar mistake in seeking to learn why some nations have become rich and powerful, and others poor and weak. We examine their laws, their commerce, their banks, and their tariffs, to find the seeds of power or decadence. We search in vain. Wealth and power are characteristics of people more than conditions. At least the characteristic is the sole cause of the condition. A nation is poor for the same reason that it is dirty, because it will not take the pains to become otherwise. Let the people of England and Spain change places, and in ten years the Cunard steamers will start from Cadiz instead of Liverpool. Why? Simply because the English people are willing to expend the labor necessary to build the steamer for the sake of obtaining her, while the Spaniard would prefer to purchase present enjoyment by selling her.

However wealthy individuals may be, a people cannot put forth their power without a government. Having got a government, its power is measured by the will and energy of the people, and not by its banks or financial system, provided that the interests of government and people are really the same. But if the government has other ends than the good of the nation, — ends which the people, if left to themselves, would not be willing to carry out, — then some system of cajoling becomes necessary. Such was the origin of the national debts of Europe. Warlike and ostentatious monarchs desired to spend more money than their people would have been willing to pay in taxes. So they borrowed the money, not for their people's good, but for their own, trusting to get out of the former by a series of small contributions what they would have been unwilling to give at once.

The purpose for which our government may want money can never be of this nature, because it is simply the agent of the nation, and its good is the good of the nation. Its power and its credit rest directly upon the virtue, integrity, and patriotism of the people, and upon nothing else. No intermediate agents, such as national banks or other corporations designed

to support its credit, can help it in any considerable degree; and when we lean on such supports, we trust to a broken reed. So with irredeemable paper money and a national debt. It can hardly be necessary in the present advanced state of social science to show that these add nothing to the power of a people.

Although this fact is so well understood by those who have made the dynamics of the social system a subject of study, it seems impossible to eradicate from the popular mind the idea that money is the sinew of war, and that it must be got by borrowing. And yet it is as false in political economy as the doctrine that the earth is an immovable plane would be in geography. No theory has been oftener disproved by experience. Our first war for independence showed that paper money was only a rude and violent instrument of taxation, giving nothing to the government which it did not take from the people. We have seen revolutionary France throw aside her paper money and come back to specie just as her twenty years' struggle with the combined powers of Europe was fairly begun. We have seen England raise by taxation her entire war expenses during her struggle with Napoleon. Why, then, could we not fight without such cumbersome and expensive auxiliaries as irredeemable paper money and a permanent debt? It is impossible to borrow money from our own citizens in sums larger than could be raised by taxation. For the only absolute limit of taxation is fixed by the power of the individual to pay; and this is also the necessary limit of the ability to loan. No one can loan money unless he is able to dispense with its use; and if he can dispense with it, he can pay it as a tax. Again, there are great numbers who, from lack of faith or frugality, will loan the government nothing; but all this class can be reached by taxation, and thus be made to lighten the burden which would otherwise fall exclusively on those possessed of confidence in the stability and good faith of the government. Thus, to a republic like ours, a permanent national debt is not only a source of danger, and an unmitigated evil, but it is an evil to which there can never be any absolute necessity of our being subjected.

Public opinion, we trust, will erelong accept these general propositions as the basis of our future financial policy: — that

the collective virtue and public spirit of the individual citizens of our republic are the source, and the only source, of all our national power; that the functions of government are limited to devising the ways and means by which each individual citizen can most conveniently bear his share of the public burden; that taxation, and not loans, is the proper way of meeting an extraordinary expenditure which taxes the whole energies of the people, loans being advisable only when the emergency is not sufficient to necessitate the expensive machinery of taxation. When these principles are acted upon, our government will be a commonwealth in deed, as in name, and our financial system, from being the most complex, will become the most simple among nations.

ART. V. — 1. *Mémoire sur l'Origine et l'Organisation des Committés Conciliateurs en Dannemarc.* Par A. B. ROTHE. Copenhague. 1803. 16mo. pp. 126.

2. *Beyträge zur Kenntniss der Vergleichs-Einrichtungen in Dänemark.* Von A. B. ROTHE. Copenhagen. 1804. 16mo. pp. 118.

AT the close of the last century the administration of justice on the continent of Europe was in a very wretched state. At no time can the praise bestowed on the theoretical simplicity of the civil law be truly extended to the practice of the courts; and at this period the forms of procedure were to the full as verbose and cumbersome, as provocative of delay and expense, as those in an English chancery suit, while the legal profession generally were accused, and it would seem justly, of chicanery, and of eagerness rather to foment litigation than to promote the real interests of their clients. To remedy these growing evils several governments established Courts of Conciliation for the amicable settlement of disputes. These courts differed considerably in their organization, and met with very different success.

In most countries the experiment has entirely failed and